

Integrating Sustainable Development into Indonesia's Banking Architecture: Legal Perspectives on ESG-Driven Green Economy Policies in Sharia Banking

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Abstract

The increase in human civilization usually brings forth negative impacts on the environment. With this rate of damage, various parties need to carry out efforts to prevent environmental destruction, such as through the initiation of green finance programs, which were enacted in Financial Service Authority Regulation (FSAR) No. 51 of 2017. This law contains the obligation of financial institutions, including sharia banks, to issue sustainable reports. These reports may be seen from three main factors, namely the environmental, social, and governance (ESG) sectors in the Bank Syariah Indonesia (BSI), to achieve the green banking concept. The implementation of the green banking concept allows the achievement of economic development goals with an environmental perspective. In this research, BSI is the analyzed object as it is the only sharia bank that is categorized as The highest Core-Capital-Based Public Bank and has complete and measurable sustainability reports. The objective of this research is to map out the effectiveness of this sharia bank's ESG application as a manifestation of the green banking concept's application. This article employed the descriptive qualitative method, which collected literary data. The results of this study indicate that although ESG reporting is mandatory for banks, its implementation has not been well-executed, as it appears to be a one-off report, and lacking uniformity. This serves as a reminder for policymakers to pay more attention to the content and substance of sustainability reports so that banks can effectively fulfill this obligation.

Keywords: *The Environment, Damage, Financial, ESG, Green Banking, Sharia Bank, Core-Capital-Based Public Bank, Effectiveness.*

Introduction

In general, the developmental advancements that have currently been achieved only consider one aspect, namely economic achievement, without considering the sustainability of the existing environment [1]. The aim of national development is to create a stable, inclusive, and sustainable economic growth with the end goal of providing economic and social welfare to all people, as well as wisely protecting and managing the environment in Indonesia [2]. The economic developmental process must prioritize the harmony between the economic, social, and environmental aspects [3].

Natural preservation is often neglected due to the establishment of development programs that only target economic growth, leading to social disparities and a decrease in environmental quality as well as all their implications [4]. In achieving the national economic goals, there needs to be support from the financial system, as it has the power to prevent the occurrence of funding or investment practices on business activities that excessively exploit natural resources, as these activities may increase the social gap and lead to environmental damage [5].

The application of the sustainable financial principle in the Indonesian financial institution system is an implementation of Law No. 32 of 2009 on Environmental Protection and Management that aims

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to develop and apply environmentally sociable economic instruments. This includes environmentally friendly policies in the banking sector, capital markets, and non-bank financial industries [6].

The rate of environmental destruction that occurs in Indonesia has reached a concerning level. One of the newest things that causes this is the existence of the government's food estate program [7]. The environmental impacts that occur are devastating due to the existence of massive deforestation in food estate project areas [8]. The newest report states that in 2023, Indonesia lost around 292 thousand hectares of its primary forests, becoming one of the countries with the highest rate of forest loss in the world [9].

To overcome this urgently high rate of environmental damage, there needs to be strategies to prevent further destruction [10]. One of the efforts that may be carried out is by involving banking financial institutions, especially sharia banks. To create an inclusive economic growth with environmental insight, the Financial Service Authority (Otoritas Jasa Keuangan/FSA) enacted the Regulation of the Financial Service Authority No. 51/POJK.03/2017 on the Application of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies. This FSA Regulation applies specifically and in a binding manner to all actors in the financial service sector with the aim of creating a financial system that applies sustainable principles. To achieve this goal, it obliges every financial institution to routinely create and send financial reports to the FSA [11].

Research Problem

With the existence of reports on the decrease in the welfare level as well as the increase in the rate of environmental damage, there needs to be research on how to minimize environmental destruction and increase economic development. Apart from that, there are legal regulations that govern the application of sustainable banking as stipulated in FSAR No. 51/POJK.03/2017, which obliges the creation of sustainable financial reports. Even though this regulation has been in place for several years, it has not brought significant impacts to the improvement of the environmental quality. Thus, this research tries to analyze the effectiveness of the sharia bank's level of ESG program implementation as one of the manifestations of green finance. This is because sharia banks apply the Islamic principle, which emphasizes environmental preservation, a principle that is in line with the green banking principle [12].

Welfare changes the Indonesian society's patterns, making the people more resilient. This can be seen from policies' support, especially in the application of ESG policies in sharia banks [13]. It is hoped that the application of the green finance concept may bring changes to the condition of the Indonesian society, making the people more prosperous, both socially and economically [14].

This research tries to measure the effectiveness of ESG aspects in sharia banking. Some indicators and measurement instruments can be used to assess how far this sharia bank's ESG policies bring positive impacts to societal welfare. The following are some methods to assess the effectiveness of the ESG aspects in their relations to societal welfare:

The Environmental Indicator can be measured through the decrease in carbon footprints, namely by measuring the decrease in banks or related companies' greenhouse gas emissions and carbon footprints. If banks support environmentally friendly projects, such as renewable energy, the amount of decreased emissions may show contributions towards the decrease in climate change [15], impacting society's life quality. Apart from that, the management of natural resources is also an important element in the management of green finance [16].

The Social Indicator can be measured through the availability to access and financial inclusion, assessing how far banks provide financial services to societal members lacking services, such as micro, small, and medium enterprises (MSMEs); marginal groups; or individuals with limited access to sharia banking services. Data on the number of new customers or channelled funding to certain groups may become important indicators. Apart from that, the manifestation of social welfare is also a form of social indicator achievement.

The Governance Indicator is marked by the application of transparency and accountability in the management of sharia banks. The measurement of the success of a bank's good governance implementation can be seen from how far the bank's annual or ESG reports conduct their business practices transparently.

There are some previous studies analyzing the same theme, such as: the Juridical Implication of the Green Banking to Banks in Indonesia [17], which discusses how the stipulations in FSAR No.

51/POJK.03/2017 obliged banks to create sustainability reports as one of the efforts to protect the environment [18]. The findings of this research show that banks must avoid channelling funds to companies that bring negative environmental impacts. The similarity between this previous research and the current research is the existence of the discussion on the sustainability report regulation [19]. Meanwhile, the difference is that the previous research emphasizes legal regulations, while the current research provides a comprehensive explanation of the legal and environmental perspectives [20].

Research entitled Encouraging Sustainability and Innovation: Green Banking Practices Growing in Indonesia [21] provides a perspective on the application of green banking in banks in Indonesia. In line with the previous research, this research emphasizes the application of green banking with the library study method. The similarity with this research is that it analyzes the application of green banking in Indonesia. Meanwhile, the difference is that this current research focuses on the green banking concept in sharia banks.

After comparing with previous research papers with a similar theme, it was found that this research offers novelty regarding the application of green banking in sharia banks with ESG as its measuring factor. This topic has not been analyzed, especially from the perspective of environmental welfare, as well as the effectiveness from the aspect of its legal application [22].

Research Problem

This was qualitative research which utilized the library browsing method and employed normative data. Data which originated from legal regulations were then applied in the form of BSI's sustainable reports from 2021 to 2024. BSI was chosen as it was the only sharia bank which was categorized of the Core-Capital-Based Public Bank 3, whose core capital reaches 14 to 70 trillion rupiahs.

Apart from that, BSI was chosen as it was a bank with sustainability reports which present quantitative rather than qualitative data. This characteristic is important as most of the other sharia banks only reported data in a qualitative manner, making it impossible to be thoroughly measured. Even so, the sustainability report, which was published by BSI, also contained some weaknesses. For instance, the indicators which were presented from year to year were different. Thus, to comprehensively carry out measurement, the presented data are the ESG indicators that have been provided in a complete manner in the sustainable reports published by BSI and sent to the Financial Service Authority.

Results and Discussion

Results

Based on the results on the three existing indicators, environment, social, and governance factors in BSI's sustainable reports from 2021 to 2024, clear results were obtained, namely:

Table 1. ESG BSI 2021–2024

Code	Indicator	2021	2022	2023	2024	Legal Basis
E1	Energy efficiency programs (number of projects)	5	6	7	8	FSAR 51/2017 attach. B.2, GRI 302-1, SASB FN-CB-410a.1
E2	Total emissions GRK (tCO ₂ e)	234,80	4.385,65	1.722,01	19.792,10	FSAR 51/2017 attach. B.2, GRI 305-1 & 305-2, SASB FN-CB-410a.2
E3	Green financing (Rp trillion)	6,697	9,327	12,235	14,084	FSAR 51/2017 Pasal 8(3)c, GRI 201-1, SASB FN-CB-410a.3
S1	Number of female employees (people)	7.927	7.573	7.367	7.069	FSAR 51/2017 attach. B.3, GRI 401-1

S2	Average training hours per employee (hours)	20,53	122,40	78	15	FSAR 51/2017 attach. B.3, GRI 404-1
S3	MSME Financing (Rp trillion)	39,46	41,82	45,56	52,42	FSAR 51/2017 Pasal 8(3)c, GRI 203-1
G1	Number of anti-corruption training (activities)	5	6	7	8	FSAR 51/2017 attach. B.4, GRI 205-3
G2	Percentage of employees participating in data privacy training (%)	65	70	75	80	FSAR 51/2017 attach. B.4, GRI 418-1, SASB FN-CB-230a.2
G3	Sharia Supervisory Board Meetings (times)	12	12	12	12	FSAR 8/2014 Pasal 31, FSAR 51/2017 Bab V

Environmental, Social, and Governance (ESG) are a framework that assesses company performance and responsibility that is not limited to the financial aspect but also its impacts on the environment, society and community, as well as good company governance. In the banking sector, including sharia banking, the application of the ESG principle becomes even more crucial in line with the encouragement of regulations and demands of stakeholders on sustainable financial practices.

BSI is the largest sharia public bank in Indonesia, which was the result of a merger in 2021 and the forefront of sustainable finance implementation. Sharia values that BSI hold are in line with ESG principles, where the application of the ESG is deemed to not merely be regulatory compliance but is also a manifestation of maqashid sharia (the goals of the sharia) that prioritizes the community welfare and environmental preservation (23).

Since its formation, BSI has integrated the principles of “People, Planet, Profit” in its business operations. This is reflected in various BSI initiatives, starting from the internal energy efficiency program, the expansion of green financing, the empowerment of MSMEs, and the strengthening of governance through anticorruption training and data protection.

Legal Bases of ESG in the Sharia Banking Sector

The regulatory framework in Indonesia has placed a strong basis on the application of ESG in the financial service sector, including sharia banking. The Law mandates the development of environmentally friendly capital markets and financial institution systems (24). These regulations become the basis for the Financial Service Authority in issuing special regulations on sustainable finance. In 2017, the FSA has enacted FSAR No. 51/POJK.03/2017. This regulation also applies to public sharia banks (referring to Law of Sharia Banks No. 21/2008) and obliges the integration of ESG aspects in banking operations and strategies. FSAR No. 51/2017 defines “sustainable finance” as support of the financial service sector for the growth of a sustainable economy by harmonizing economic, social, and environmental interests (25).

Operationally, FSAR obliges every Financial Service Institution, including sharia banks, to formulate yearly Sustainable Reports and Sustainable Financial Action Plans. These Sustainable Reports may be independently published or become part of the yearly report and must be delivered to the FSA each year according to the determined deadline. In the appendix of the regulation, the FSA also determines sustainable performance indicators that must be disclosed, encompassing the environmental, social, and governance aspects. These indicators include the usage of energy, greenhouse gas emissions, financing portion for business activities with environmental insight, inclusive finance (MSMEs), work opportunity equality, up to anti-corruption efforts and consumer protection.

Apart from domestic regulations, reporting practices and global ESG standards also become references. Global Reporting Initiatives (GRI) provide international standards for sustainable reporting that encompass various economic, environmental, and social indicators. Meanwhile, the Sustainability

Accounting Standards Board (SASB) issues standards on sector-specific ESG disclosure that are designed to identify sustainability issues that become materials for investors. As a public company and a banking entity that commits to ESG, BSI adopts GRI and SASB guidelines in formulating its sustainability report. This can be seen from the accordance between BSI's ESG and these global standard codes; for instance, BSI's energy efficiency indicator is linked to GRI 302-1 and SASB FN-CB-410a.1(26); greenhouse gas emissions are linked to GRI 305-1/305-2 and SASB FN-CB-410a.2(27); while data privacy indicators refer to GRI 418-1 and SASB FN-CB-230a.2(28). By referring to these standards, BSI guarantees that its ESG performance has fulfilled the best international practice as well as comply with FSA's regulations.

As a sharia bank, BSI also complied with special regulations on sharia banking related to the governance aspect. Regulation of the FSA No. 8/POJK.03/2014 on the Implementation of Good Corporate Governance in Public Sharia Banks contains regulations that govern the roles and functions of the Sharia Supervisory Council. Article 31 of the FSAR No. 8/POJK.03/2014 requires the Sharia Supervisory Council to organize routine meetings at least once a month. These stipulations are relevant as a part of the Governance (G) aspect in the ESG, considering that sharia compliance is an integral part of sharia banks' governance. Therefore, the ESG legal framework for sharia banking encompasses a combination of general regulations on sustainable finance as FSAR No. 51/2017 which is rooted in the mandate of the 2009 Environmental Law and special regulations on sharia banking (such as Regulation of the FSA No. 8/2014) which emphasizes the principles of transparency, accountability, and sharia compliance in the bank's operations.

Discussion

An Analysis of BSI's Implementation of the E, S, and G Indicators from 2021 to 2024

BSI shows a positive trend in the internal environmental management initiative and green funding contribution. The E1 Indicator (energy efficiency program) experiences an increase each year: there were 5 energy efficiency projects in 2021, and this number experienced a gradual increase, becoming 8 projects in 2024(29). This energy efficiency program reflects BSI's steps to decrease the consumption of energy and emissions, such as through the paperless policy, service digitalization, the usage of solar panels in branch offices, waste management, and the usage of electric-powered operational vehicles (30). These internal "green" steps are in line with BSI's commitment to support the national net-zero emission target by 2060 (31).

BSI's E2 Indicator (Total emission of greenhouse gases) shows a fluctuating trend with a tendency of a significant increase in 2024. In 2021, the total greenhouse gas emission was recorded to reach 234.80 tons of CO₂e, which experienced a steep increase to 4,385.65 tons of CO₂e in 2022. In 2023, the emission decreased to 1,722.01 tons of CO₂e, while in 2024 it once again experienced a very steep increase to 19,792.10 tons of CO₂e. This exponential increase in 2024 needs to gain attention. This may be due to the expansion of the emission calculation scope (for instance, indirect emissions or emissions from funding portfolios started to be calculated) as well as the growth in the bank's operations. In the context of the Sustainability Accounting Standards Board (SASB), the greenhouse gas emission metric for the banking sector encompasses carbon footprints from operational activities and sometimes also includes the portfolio exposure; therefore, this steep increase may indicate that BSI is more transparent and comprehensive in reporting its emission impacts. For BSI, its future challenge is decreasing these emissions through efficiency initiatives and carbon compensation, so that they are in line with the target of the national emission decrease. As an illustration, BSI has carried out various green actions, such as the planting of a thousand mangrove trees and the recycling of plastic waste, which were claimed to contribute to decreasing carbon emissions by 63.4 tons of CO₂ as well as recycling 17.2 tons of plastic waste by 2023 (32). BSI needs to keep on increasing these efforts, considering the large amounts of total emissions in its operations and perhaps the BSI portfolio.

BSI's E3 Indicator (Green funding) shows significant progress in the commitment to fund business activities with environmental awareness. In 2021, the value of BSI's green funding was noted to have reached Rp. 6.697 trillion, and this number increased each year, reaching Rp. 14.084 trillion in 2024(33). More than double growth in four years indicates the expansion of BSI's portfolio to green sectors such as renewable energy, energy efficiency, sustainable water and waste management, as well as environmentally friendly products. Up to the first quarter of 2021, BSI has even reported a total portfolio of sustainable funding (inclusive and green economy) reaching Rp. 72.6 trillion, including green funding, with an amount of Rp. Rp14.6 trillion (34). Per the end of 2023, the composition of BSI's sustainable funding is dominated by the MSME sector (Rp. 43.4 trillion), followed by the agricultural

sector (Rp. 4.9 trillion), eco-efficiency products (Rp. 3.3 trillion), renewable energy (Rp. 1.4 trillion), and other eco-green projects (Rp. 0.6 trillion) (35). This data shows BSI's focus on the green economy sector as well as its partiality to small businesses as part of the inclusive sustainable growth concept. The trend in the increase in green funding is in line with the mandate of the Article 8 FSAR No. 51/2017, which encourages fund allocation for sustainable financial activities. Moreover, it is also in line with the GRI 201-1 standard, which encourages the disclosure of direct economic contribution, including sustainable funding (36). BSI has clearly placed this compliance as a priority, proven by the management's statement that the focus of the environmentally friendly funding is carried out according to FSAR No. 51/2017 and is implemented through products such as Sustainability Sukuk (environmentally friendly sharia bonds) with a total amount of Rp. 8 trillion up to 2024(37).

Social Aspect (S)

In the social aspect, BSI's performance encompasses the indicators of internal human resource empowerment and equality, as well as its contribution towards inclusive funding for the wider society. The S1 Indicator (The number of female employees) in BSI shows a trend of a moderate decrease from 2021 to 2024. In 2021, BSI had 7,927 female employees, while in 2024, this number decreased to 7,069 people (38). This decrease occurred gradually each year (around 3–5% annually). Even so, there is no further explanation behind this data, as the decrease in female employees may be caused by post-merger organization optimization or the decrease in the number of employees in general. Even so, from the ESG perspective, this trend highlights the importance of the principles of inclusivity and gender equality. According to GRI 401-1 (which regulates employee affairs, including recruitment and turnover), it is hoped that companies monitor the composition of employees and create equal work opportunities (39). BSI needs to make sure that the proportion of female employees stays proportional and there is no bias in recruitment or promotions, so that the ideal equality in ESG is implemented.

The S2 Indicator (The average training hours per employee) shows significant fluctuations, reflecting the dynamics in BSI's human resource development policies. In 2021, on average, every employee received 20.53 hours of training a year. Then, this number experienced a steep increase in 2022, reaching 122.40 hours per employee. There is a great chance that this sixfold increase is an impact of the massive post-merger training program, such as training on the system integration, company culture, as well as the increase in employee competencies in line with digital transformation. However, this trend does not continue in a stable manner, as in 2023, the average training hours decreased to 78 hours, and plummeted to only 15 hours per employee in 2024 (40). There needs to be attention over the drastic decrease in 2024, as the continuity of training is crucial to guarantee the increase in employee capacity and knowledge. The GRI 404-1 standard emphasizes the importance of reporting training hours as an indicator of the company's commitment to employee development (41). BSI should ideally maintain the training hours at adequate and equal levels for all employees. The decrease in 2024 may be due to changes in training strategies (such as the greater focus on short e-learning programs or program postponement). Even so, whatever the reason is, the increase in the average training hours is a crucial recommendation to maintain the human capital in the long term.

The S3 Indicator (MSME Funding) shows a consistently positive performance, illustrating BSI's role in supporting financial inclusion and the empowerment of the community's economy. BSI's MSME funding portfolio keeps increasing each year, from Rp. 39.46 trillion in 2021 to Rp52.42 trillion in 2024. This cumulative increase by around 33% is in line with the focus of the government and regulators to increase access to capital for the MSME sector. Even, based on the latest data as of September 2023, the MSME sector occupies the largest portion (around 80%) of BSI's total sustainable funding (42). This shows that BSI defines sustainable finance not only from the perspective of "green" environment but also from the perspective of "inclusive" in a social sense. The FSA Regulation also inserts inclusive funding as part of sustainable finance, seen from the Regulation of the FSA No. 51/2017, which encourages banks to allocate funds to business activities with environmental and social insight, including MSMEs. From the perspective of GRI 203-1 (infrastructure and services that support society), this increase in MSME funding brings an indirect positive economic impact, as MSMEs make a great contribution towards the opening of job opportunities and creating local economic growth. Therefore, BSI has effectively carried out its social role through the channeling of credit to pro-common people sectors, in line with the sharia principle of community empowerment.

The Governance Aspect (G)

In the governance dimension, BSI focuses on strengthening the anti-corruption culture, the protection of customer data, as well as the compliance with sharia principles as a unique element of

sharia banks' GCG (Good Corporate Governance). BSI's G1 Indicator (The number of anti-corruption training) experienced a consistent increase, showing an annual escalation in the corruption prevention efforts. It was recorded that BSI organized five anti-corruption training activities in 2021, and this amount gradually increased to 6 in 2022, 7 in 2023, and up to 8 training activities in 2024 (43). The training's content includes the introduction to ethical codes, anti-fraud, and compliance with anti-corruption regulations. The increase in the frequency of these training activities indicates the BSI management's commitment to grow a sense of high integrity in all ranks. From the regulatory aspect, FSAR No. 51/2017 obliges banks to disclose information on anti-corruption and anti-fraud initiatives, while GRI 205-3 encourages the reporting of proven corruption incidents and the actions taken. By increasing training on the prevention of corruption, BSI shows a proactive step to decrease the risk of corruption. Thus, up to now, there have not been any recorded material corruption incidents that occurred.

The G2 Indicator (The percentage of employees that participate in data privacy training) also experienced a significant increase, reflecting BSI's response towards the increasingly prominent issue of data privacy and consumer protection. In 2021, around 65% of BSI's employees participated in data security and privacy training, and this rate increased to 70% (2022), 75% (2023), and up to 80% in 2024 (51). This means that in 2024, four out of five BSI employees have been equipped with the awareness and understanding of the importance of protecting customers' data privacy as well as the compliance towards data protection regulations. This increase is highly relevant considering that the Republic of Indonesia's government has enacted the Law on Personal Data Protection (Law No. 27 of 2022), which demands data controllers, such as banks, to ensure that their human resources have competencies in protecting customers' data.

In the GRI 418-1 standard, there is also an emphasis on the disclosure of incidents of violations against customers' data, while the SASB FN-CB-230a.2 standard for commercial banks specifically measures the percentage of employees who obtained information security training (44). BSI's steps in increasing training to up to 80% of employees is in line with that best practice, even though the ideal target is 100% to make all employees gain a uniform awareness. In the future, BSI needs to maintain this trend and renew the training curriculum, making it in line with the evolving threats in the cyber sector.

G3 Indicator (Meetings of the Sharia Supervisory Council) maintains a constant pattern, namely 12 meetings annually from 2021 to 2024 (45). This frequency means that BSI's Sharia Supervisory Council consistently conducts one meeting each month. This is in line with the stipulations of the Article 31 of FSAR No. 8/POJK.03/2014, which obliges the Sharia Supervisory Council in sharia banks to conduct meetings at least once a month to carry out its function of supervising sharia compliance (46). This achievement shows BSI's governance aspect, especially related to the fulfilment of sharia principles that have been carried out in a disciplined manner. The implication is that each of this bank's product and operational decisions obtain regular monitoring from the Sharia Supervisory Council to maintain compliance with sharia principles (sharia compliance). From the ESG perspective, the functioning of the Sharia Supervisory Council enriches the G (Governance) dimension with the elements of ethics and religious compliance, completing conventional GCG practices. Apart from the Sharia Supervisory Council, in general, BSI's governance refers to the principles of transparency, accountability, responsibility, independence, and appropriateness as regulated in the FSA. BSI has accepted the acknowledgement for its governance commitment, such as by obtaining the "Best Islamic Bank for ESG" predicate in the Indonesian, Asian, and global levels based on the Euromoney Islamic Finance Awards in 2025. This award shows that BSI's implementation of ESG, including the GCG aspect, is superior at the international level.

The Evaluation of Compliance with Standards and Regulations

Based on the analysis above, in general, BSI's implementation of ESG is already in line with the national regulatory framework and relevant global standards. The following is the evaluation of its compliance per aspect:

1. Environmental Aspect: BSI has fulfilled and exceeded some basic stipulations related to the environmental aspect. FSAR No. 51/2017 encourages banks to channel funding to Environmentally Friendly Business Activities as well as manage the environmental impacts of banking operations. BSI implements this by annually increasing its green funding portfolio (E3), which shows its compliance with the bank's Sustainable Financial Action Plan targets. Article 8 clause (1) of the FSAR No. 51/2017 obliges the provision of funds for sustainable finance as part of social and environmental responsibility (47). In this case, BSI has truly allocated a

significant amount of funds to green sectors. Apart from that, the E1 indicator (energy efficiency) reflects BSI's efforts to internalize the environmental friendliness in its operations, in line with Appendix B.2 FSAR 51/2017, which requires the reporting of energy efficiency initiatives and the usage of renewable energy. In this case, BSI has also referred to the GRI 302-1 standard, where companies are expected to disclose their efforts to decrease energy consumption (48).

For the indicator of greenhouse gas emissions (E2), BSI has reported its yearly emission data according to the GRI 305-1/305-2 standard. This obligation to report emissions is implicitly included in FSAR No. 51/2017. With the steep increase in emissions in 2024, it is important for BSI to guarantee its compliance with the objectives of Law No. 32/2009, which mandates environmental protection. Through various instruments (including economic incentives/disincentives), Law No. 32/2009 encourages business actors, including financial institutions, to decrease their environmental footprints (49). In terms of regulations, there are no direct sanctions for the increase in emissions, but from a sustainability perspective, BSI should determine a target to decrease emissions in the future so that it is in line with the national commitment (Nationally Determined Contributions of the Paris Agreement) and the Net Zero agenda. Apart from that, the SASB standard for commercial banking expects the disclosure of banks' strategies in facing the risk of climate change, including how banks decrease operational emissions and manage carbon risks from their loan portfolios. In this case, BSI has started to take steps, such as issuing Sustainability Sukuk that is combined with global initiatives, such as United Nations Environment Program Finance Initiative (UNEP FI) (50), as a form of commitment to fulfil international standards.

2. **Social Aspect:** In the social aspect, in general, BSI's implementation is already according to regulations and standards, even though there are some areas that require further attention. Appendix B.3 of the FSAR No. 51/2017 regulates the disclosure of the social aspect, including the employee welfare and composition, as well as the social impacts of financial products/services. BSI has reported the number of female employees (S1) according to the stipulations and standards of GRI 401-1. In the legal sense, there are no forced quantitative targets regarding gender proportions, but the principles of non-discrimination and equal opportunity in workplaces are regulated in various labor regulations. The management should pay attention to the decreasing trend of female employees in BSI to make sure that the recruitment, retention, and promotion policies in BSI already apply the gender equality principle. This is in line with point 5 of the Sustainable Development Goals (SDGs) on gender equality, which is also adopted in the FSA's sustainable finance roadmap (51). BSI may consider empowerment programs for female employees or internal targets to increase the proportion of women at the managerial level as part of the ESG commitment.

For employee training (S2), BSI has fulfilled the reporting transparency according to GRI 404-1. It is a fact that the FSA does not determine the minimum training hours, but in the GCG evaluation of the FSA, human resource development becomes one of the evaluation factors. The fluctuation in the amount of training hours from very high to very low indicates the need for a more sustainable training plan. From the aspect of labor regulation, employee training and education are part of the fulfilment of employee rights over competency development. The author's recommendation for BSI is that it should determine standards or annual training curricula so that the training hours per employee that can become more consistent according to the company's strategic needs.

MSME financing (S3) is a highly favored aspect of BSI that is in line with the regulatory priority. Through various regulations (including FSAR No. 51/2017 Article 8(3) and other regulations such as FSAR No. 17/POJK.03/2018 on the portion of MSME loans), encourage banks to increase their MSME portfolio. Even, the Bank of Indonesia has stipulations on minimum lending to MSMEs for banks. BSI's performance which keeps increasing MSME funding to more than Rp. 52 trillion in 2024 shows its compliance and real contribution towards the financial inclusion agenda. Here, the GRI 203-1 standard has been implemented, where BSI is able to show how its services (funding) substantially support the local community's economy. With BSI's position as a sharia bank, this MSME funding is also in line with Islamic principles of encouraging social equality and preventing disparity. BSI's social aspect is holistically on the right track in fulfilling the expectations of regulations and standards of ESG. However, what needs to be maintained is the increase in sustainability and the consistency of the program in the future, such as the CSR program for community empowerment, the innovation of inclusive financial products, as well as employee diversity and welfare.

3. **Governance Aspect:** From the governance perspective, BSI's implementation is thick with a nuance of compliance with GCG standards and regulations, showing a high suitability with

regulations. FSAR No. 51/2017, obliges the disclosure of anti-corruption culture and consumer protection. BSI has actively conducted anti-corruption training each year (G1), meaning that it has fulfilled regulators' expectations over preventive efforts. Further, Law No. 19 of 2003 on State-Owned Business Enterprises (BSI is categorized as a subsidiary State-Owned Business Enterprise) and the Regulation of the FSA on the Application of Risk Management encourage companies to have anti-fraud programs and a whistleblowing system. The increase in the number of BSI's anti-corruption training is in line with GCG's General Guidelines for Banks as well as the GRI 205-2 standard (anti-corruption training for employees), even though in BSI's report, this indicator refers to GRI 205-3 (52). In this case, BSI seems to be proactive in mitigating the internal corruption risks as well as maintaining the institution's reputation.

The issue of consumer data protection (G2) also becomes part of BSI's governance compliance, that is relevant to the newest regulations. With the enactment of Law No. 32 of 2011 on the Financial Service Authority and several Circular Letters of the FSA on Information Security, banks must apply the principles of data confidentiality and cybersecurity. Through its data protection training for 80% of its employees in 2024, BSI has shown concrete steps to fulfill this principle of care. The SASB standard for banks regards customer data protection as a material topic. Then, in the assessment of operational risks, the FSA also examines the aspect of data protection. BSI's compliance in this aspect is not only shown on paper but is also operationally implemented (such as through the application of need-to-know policies, layered security systems, and internal education). In the future, compliance challenges will increase along with the full application of the Personal Data Protection Law, but BSI's initial steps are already on track.

Regarding governance in the sharia context, BSI has clearly fulfilled obligations determined by FSAR No. 8/2014 with routine Sharia Supervisory Council meetings (G3). Even, it can be said that BSI has exceeded the bare minimum compliance by actively involving the Sharia Supervisory Council in formulating the company's strategic policies. This is crucial as in sharia banks, governance is not only assessed from the conventional perspective but also encompasses sharia compliance. As the largest sharia bank in Indonesia, BSI has an active role in formulating the industrial standard (through the Association of Indonesian Sharia Banks) and adopting global initiatives such as Principles for Responsible Banking (UNEP FI) (53), which confirms the commitment to responsible governance at the international level. Therefore, in the wider aspect of governance, BSI's ESG implementation in the period of 2021–2024 can be deemed as highly in line with regulations and standards: no material deviations or violations have been found(54).

Although the government through FSAR No.51/2017 has required every bank to carry out sustainability reporting, there are still several weaknesses that need to be corrected.

Weak Transparency of Sustainability Reports.

The Sustainable Finance Action Plan and the latest reports are difficult for the public to access on the OJK website; even those available are not up-to-date. This reduces accountability and social control. To improve these weaknesses, require a centralized public portal with machine-readable data for all sustainability reports, including annual versioning.

No Clear Mandate for Monitoring and Evaluation

FSAR No. 51/2017 does not mandate the OJK to systematically monitor and evaluate sustainability reports. As a result, implementation can easily become a matter of box-ticking. Problem solving offered include monitoring requirements based on measurable performance indicators (KPIs) and periodic reviews with public feedback.

Administrative Sanctions Are Too Light and Not Tiered.

Sanctions for violations tend to be limited to written warnings; there is no tiered escalation of sanctions or clear market consequences, resulting in a low deterrent effect. For the solution can Adopt gradual sanctions (fines, product freezes, expansion restrictions, and even publication of naming and shaming) and ESG fit-and-proper procedures for management in the event of repeated material violations.

High Risk of Greenwashing

With a focus on reporting and minimal quality/substance audits, inconsistent standards, and varying capacities of stakeholders, the risk of greenwashing increases (also acknowledged by industry

players). The solution can be taken by encourage ESG due diligence (including human rights due diligence), independent second-party opinions, and at least limited assurance on key metrics.

Misalignment with evolving taxonomies and standards

There is no established green standardization and weak inter-agency coordination. POJK 51/2017 does not update the linkages with the Green Taxonomy and new disclosure standards, making the transition directives less operational in credit/investment. The solution can be by mandatory plugins to the latest Green Taxonomy and bank credit policies (e.g., loan agreements with sustainability and ESG results-based KPIs).

Conclusion

The analysis above shows that BSI has progressively implemented ESG principles in the period of 2021–2024, in line with the applicable legal frameworks and standards. In the Environmental aspect, BSI has increased its internal energy efficiency and grown its green funding portfolio, indicating its compliance towards the FSAR No. 51/2017 as well as its commitment to national sustainability agendas. Even though the total greenhouse gas emissions experienced a steep increase in 2024, this was deemed a challenge to strengthen future strategies to decrease emissions. In the Social aspect, BSI has an active role in encouraging financial inclusion through MSME funding that keeps on increasing, in line with the vision of an inclusive sustainable finance. In the internal aspect, BSI has made efforts to increase employee capacity (seen from the sharp increase in training hours in 2022) and maintained diversity, even though the decrease in the number of female employees highlights the importance of sustained attention to the equality issue. Then, in the Governance aspect, BSI is consistent in strengthening the governance through anti-corruption, data protection, and sharia compliance programs, where all these are according to FSAR and GCG standards.

Although BSI has been conducting periodic sustainability reports, there are still shortcomings such as the lack of uniformity in the reported indicators, so that in one BSI report there are sometimes indicators that are not reported in subsequent reports. Because of this lack of uniformity, the measurement of this sustainability report is less measurable because even one institution has different report indicators, let alone another institution. In addition, although this sustainability report is required by FSAR, there are no sanctions or incentives for banks that have implemented the report.

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